

**REPORT OF EXAMINATION**

**CONSUMERS INSURANCE COMPANY**

**Spokane, Washington**

**As of December 31, 1999**



**Participating States:**  
**Washington**

**Consumers Insurance Company**

**CHIEF EXAMINER AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Consumers Insurance Company of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 1999.

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PATRICK H. McNAUGHTON  
Chief Examiner

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Date

# Consumers Insurance Company

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# **Consumers Insurance Company**

Lacey, Washington  
June 29, 2001

The Honorable Mike Kreidler, Commissioner  
Washington Department of Insurance  
Insurance Building  
PO Box 40255  
Olympia, WA 98504-0255

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

## **CONSUMERS INSURANCE COMPANY**

of

Spokane, Washington

hereinafter referred to as "CIC" or the "Company," at the location of its parent company's home office, 601 West 1<sup>st</sup> Ave., Spokane, WA 99201-5020. This report is respectfully submitted showing the condition of the Company as of December 31, 1999.

### **SCOPE OF EXAMINATION**

This examination covers the period January 1, 1994 through December 31, 1999 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

## **INSTRUCTIONS**

The examiners reviewed the Company's filed 1999 Annual Statement as part of the statutory examination. The review focused on determining if the Company's Annual Statement was completed in accordance with the Annual Statement Instructions published by the NAIC and on determining if the Company's accounts and records were prepared and maintained in accordance with Title 48 of the Revised Code of Washington and Title 284 of the Washington Administrative Code.

The following summarizes the exceptions noted while performing this review.

### **1. Annual Shareholders Meeting**

The Company is instructed to comply with RCW 48.07.040, which requires each incorporated domestic insurer, in the month of January, February, March or April, to hold the annual meeting of its shareholders or members for the purpose of receiving reports of its affairs and to elect directors. (See Page 5, "Management and Control")

### **2. Custodial Account and Agreement**

The Company is instructed to:

- A. Place securities held in custody of the brokerage firm into custody of a bank, trust company or security depository that is regulated by the Securities and Exchange Commission, the Federal Reserve System and the banking authorities in its state of domicile, as promulgated by NAIC guidelines and WAC 284-07-050(2). (See Page 9, "Securities Custodial Account and Agreement")
- B. Execute a custodial agreement with the bank, trust company or security depository that includes the required provisions for indemnifying the Company for lost securities as promulgated by NAIC guidelines and WAC 284-07-050(2). (See Page 9, "Securities Custodial Account and Agreement")

### **3. Annual Statement Filings**

The Company is instructed to file a true statement of its transactions and affairs as required by NAIC Annual Statement Instructions and RCW 48.05.250, with regard to accurate reporting of capital and surplus and Special Deposits. (See Page 10, "Annual Statement General Interrogatories")

#### **4. Insurance Holding Company Filings**

The Company is instructed to:

- A. Comply with RCW 48.31B.030(1)(b)(i)(A), which requires domestic insurers to notify the commissioner in writing of its intention to execute investment transactions with a person in its insurance holding company system at least sixty days in advance. (See Page 10, “Insurance Holding Company Filings”)
- B. Comply with RCW 48.31B.025(1)(c), which requires members of an insurance holding company system to file a registration statement with the insurance commissioner, providing current information pertaining to the purchases, sales or exchange of assets between affiliates that exceeds one-half of one percent of the prior years admitted assets, within fifteen days after the end of the month of the transaction. (See Page 10, “Insurance Holding Company Filings”)

#### **5. Other Assets: Annuities**

The Company is instructed to:

- A. Report the annuities that are not registered and recorded under the Company’s name as non-admitted assets, as required by RCW 48.12.010. (See Page 11, “Other Assets: Annuities”)
- B. Discontinue its practice of transferring defaulted assets between affiliate companies at full book value, resulting in the economic gain of one company over the other. Such transactions are irregular, avoid statutory accounting practices, and manipulate the assets and accounts of CIC at the detriment of policyholders and are a violation of RCW 48.31B.030(1)(a)(i). (See Page 11, “Other Assets: Annuities”)
- C. Void the acquisition of the three (3) defaulted annuities, recover the cash proceeds of \$508,606, and recover for CIC the interest lost on the proceeds, thus restoring the status quo of CIC, as permitted by RCW 48.31B.050(3). RCW 48.13.020(1) prohibits CIC from purchasing or acquiring assets that are in default in any respect. The acquisition of these three (3) defaulted annuities have been found to adversely affect the interest of the policyholders, under RCW 48.31B.030(1)(d). (See Page 11, “Other Assets: Annuities”)

## **6. Mortgage Loans on Real Estate**

The Company is instructed to comply with RCW 48.12.010, and non-admit all mortgages that are not registered and recorded under the name of the insurer. (See Page 13, “Mortgage Loans on Real Estate”)

### **COMMENTS AND RECOMMENDATIONS**

There are no examination comments or recommendations.

### **HISTORY**

The Company was incorporated on September 30, 1971 as a reciprocal insurer, domiciled in the state of Washington, with the name Investors Insurance Exchange.

The Company was converted to a stock property and casualty insurer on May 31, 1972, and the name was changed to Consumers United Insurance Company. On October 26, 1978, the name of the Company was changed to Consumers Insurance Company. CIC is a property and casualty insurance corporation domiciled in the state of Washington and underwrites special property policies for its affiliates.

The Amended Articles of Incorporation and Amended Bylaws have been filed with and approved by the Washington Office of Insurance Commissioner and Secretary of State.

### **MANAGEMENT AND CONTROL**

#### **Shareholders**

Consumers Group Holding Company, Inc. (CGHC) owns 96.5% of the outstanding shares of CIC. Summit Securities, Inc., an affiliate company, owns the remaining 3.5%.

The following Annual Meeting of Stockholders of CIC were held during and subsequent to the examination period:

<u>Year</u>	<u>Dated</u>
1994	May 27, 1994
1995	May 24, 1995
1996	May 22, 1996
1997	May 28, 1997
1998	April 27, 1998
1999	April 26, 1999
2000	June 5, 2000 (Stockholder Waiver of Notice and Consent to Corporate Action in Lieu of Special Meeting)

The 1994, 1995, 1996, 1997 and 2000 annual meeting of shareholders did not comply with RCW 48.07.040 (See Instruction No. 1), which states:

“Each incorporated domestic insurer shall, in the month of January, February, March or April, hold the annual meeting of its shareholders or members for the purpose of receiving reports of its affairs and to elect directors.”

### **Board of Directors**

The business and affairs of the Company shall be managed by the Board of Directors. In accordance with provisions of the Amended Bylaws, the number of directors shall be no less than one (1) but in no event shall be the number of directors exceed fifteen (15).

The following Directors were elected to serve the Company as of December 31, 1999:

C. Paul Sandifur, Jr.  
Reuel Swanson  
Irv Marcus  
Bruce J. Blohowiak

### **Officers**

The principal executive officer of the Company is C. Paul Sandifur, Jr., President. Mr. Sandifur has been with the Metropolitan Mortgage Group of Companies for over twenty (20) years.

The following Officers were elected to serve the Company as of December 31, 1999:

C. Paul Sandifur, Jr.	President
John Van Engelen	Vice President
Bruce J. Blohowiak	Vice President
Reuel Swanson	Secretary
Susan Thomson	Assistant Secretary
Jon McCreary	Acting Treasurer

### **AFFILIATED COMPANIES**

The Company is a member of a holding company system regulated pursuant to Chapter 48.31B RCW. On May 14, 1999, “Form B – Insurance Holding Company System Annual Registration Statement” was filed with the OIC to include the Company. Within the holding company structure, Metropolitan Mortgage and Securities Company, (MM&S), controls numerous affiliates with various functions, including, but not limited to, insurance, property development,

mortgage loan origination and purchasing, the servicing of mortgages and structured receivables, and venture capital financing. In addition to the affiliates listed below, C. Paul Sandifer, Jr., as an individual, owns National Summit Corporation, which through a system of holding companies also owns Old Standard Life Insurance Company domiciled in Idaho and Old West Annuity Life Insurance Company domiciled in Arizona. C. Paul Sandifer Jr., as the controlling stockholder in MM&S, exercises full control of Consumers through direct and indirect stock ownership in the affiliates listed below:

#### **Metropolitan Mortgage & Securities Company, Inc.**

Metropolitan Mortgage & Securities Company, Inc. (MM&S) is the controlling entity of the Group. MM&S was incorporated January 8, 1953 in Washington State and is primarily engaged in providing financial services and insurance through its various subsidiaries. The home office is located in Spokane, Washington. C. Paul Sandifer, Jr., is trustee of the C. Paul Sandifur and J. Evelyn Sandifur irrevocable trust and has sole voting and sole investment control over 64.73% of MM&S's voting stock.

During 1995, CIC entered into a Federal Income Tax Sharing Agreement with MM&S. Per the terms of the agreement, MM&S will file returns on a consolidated basis. The total tax liabilities for each subsidiary will be allocated on a separate return basis.

#### **Consumers Group Holding Company, Inc.**

Consumers Group Holding Company, Inc. (CGHC) is the parent company of CIC. CGHC was incorporated September 29, 1971 as an insurance holding company domiciled in Washington State and owns 100% of CIC. CGHC is 96.5% owned by MM&S. Summit Securities, Inc., an affiliate company, owns the remaining 3.5%.

#### **Western United Life Assurance Company**

Western United Life Assurance Company (WULA), is a stock life insurance company domiciled in the state of Washington. WULA is 75.5% owned by CIC and 24.5% by MM&S.

### **CAPITAL AND SURPLUS**

The authorized capital stock of CIC consists of 150,000 shares of common stock, with a par value of \$10. There are 100,000 shares of common stock outstanding and wholly-owned by CGHC. There have been no changes to the capital structure since the prior examination.

The 1999 Annual Statement General Interrogatories incorrectly reported CIC had zero shares of authorized capital common stock, with zero par value and zero outstanding shares. (See Instructions No. 3)

## **CORPORATE RECORDS**

The examiners reviewed the corporate records of CIC for the period under examination. All Board meetings were conducted with a quorum present. The Board members ratified all changes to the Articles of Incorporation and Bylaws.

## **INTERNAL SECURITY**

### **Conflict of Interest**

Consumers Insurance Company has an established procedure for disclosure to its Board of Directors of any material or affiliation on the part of its officers, directors and key employees which is in conflict with their official duties. The Board of Directors reviews the Conflict of Interest Statements annually for conflicting situations and takes appropriate action thereupon.

### **Fidelity Bond and Other Insurance**

Consumers Insurance Company is a named insured on an extensive portfolio of insurance providing coverage against all catastrophic and other losses for the Metropolitan Group of Companies. The NAIC suggested minimum amounts of fidelity insurance were calculated for CIC at a minimum of \$450,000 - \$500,000. As of December 31, 1999, MM&S carries fidelity coverage of \$10,000,000.

## **TERRITORY AND PLAN OF OPERATIONS**

Consumers Insurance Company is authorized to do business in Arizona, Idaho, Nevada, Oregon, and Washington. During 1999, all Gross Premiums were written in Washington.

## **GROWTH OF COMPANY**

The following schedules reflect the growth of the Company by year beginning in 1995. The amounts shown were compiled from the Company's filed Annual Statements:

### **Schedule 1**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus &amp; Other Funds</u>
1998	24,984,673	2,891,663	22,093,010
1997	23,235,065	2,006,717	21,228,348
1996	22,727,861	1,440,862	22,286,999
1995	9,143,689	977,337	8,166,352

## Schedule 2

		Net			
<u>Year</u>	<u>Premiums</u> <u>Earned</u>	<u>Underwriting</u> <u>Deductions</u>	<u>Underwriting</u> <u>Gain or Loss</u>	<u>Investment and</u> <u>Other Income</u>	<u>Pre-Tax</u> <u>Income</u>
1998	758,620	792,887	(34,267)	1,785,024	1,750,757
1997	477,968	488,076	(10,108)	2,117,952	2,107,844
1996	399,099	258,710	140,389	1,123,356	1,263,745
1995	269,878	194,987	74,891	440,842	515,733

### **ACCOUNTING RECORDS AND PROCEDURES**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) modified accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for Annual Statement reporting. The Company has been granted an exemption from the Washington Office of Insurance Commissioner from filing audited Annual Statements with the NAIC. During the annual audits performed by the Certified Public Accountants, PricewaterhouseCoopers, LLP, it was concluded the transactions and affairs of CIC were immaterial and no audits of CIC were performed.

The Annual Statements filed with the Washington Office of Insurance Commissioner during the examination period were examined and reviewed to verify that they were prepared in a manner consistent with the statutory requirements of Title 48 Revised Code of Washington, Title 284 Washington Administrative Code, the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners. The following areas deviated from these standards and procedures:

#### **Securities Custodial Account and Agreement**

The Company is utilizing the services of a brokerage firm as the custodian of a portion of its bond holdings. The utilization of the brokerage firm as a custodian is not in compliance with the requirements set forth by the NAIC, which require securities to be held in the custody of a bank, trust company or a securities depository regulated by the Securities and Exchange Commission, the Federal Reserve System, and the banking authorities in its state of domicile. (See Instruction No. 2A)

The Company was unable to provide a copy of the Custodial Agreement with the brokerage firm as requested. NAIC guidelines require the Company to execute a custodial agreement with a bank, trust company or securities depository that includes appropriate provisions for indemnifying the Company for lost securities. (See Instructions No. 2B)

## **Annual Statement General Interrogatories**

The Company did not complete General Interrogatories, Item 4 - Capital Stock of This Company. No information was provided pertaining to the Number of Shares Authorized, Number of Shares Outstanding and Par Value Per Share. (See Instruction No. 3)

## **Annual Statement Schedule E - Part 2 - Special Deposits**

The Company did not accurately report the Par Values and Market Values of securities held on deposit. The reported amounts did not agree with amounts reported on Schedule D - Part 1. (See Instruction No. 3)

## **Insurance Holding Company Filings**

During October 1999, the Company acquired three (3) annuities from MM&S and Summit Securities, Inc. (SSI), at a total cost of \$508,606. The total cost of the annuities acquired from affiliate companies exceeded the three percent of prior year admitted assets or \$322,437, requiring the Company to obtain prior approval from OIC under RCW 48.31B.030(1)(b)(i)(A). The Company did not request nor did it obtain prior approval. (See Instruction No. 4A). RCW 48.31B.030(1)(b)(i)(A) states:

“The following transactions involving a domestic insurer and a person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice to be sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period: Sales, purchases, exchanges, loans or extensions of credit, guarantees, or investments if the transactions are equal to or exceed: With respect to non-life insurers, the lesser of three percent of the insurer’s admitted assets or twenty-five percent of surplus as regards policyholders, as of the 31<sup>st</sup> day of the previous December.”

The total cost of the annuities acquired from the affiliate companies exceeded one-half of one percent of the prior years admitted assets or \$53,740, requiring the Company to file an amended Form B disclosing the acquisition, within fifteen days after the October 1999 month end. The Company did not file an amended Form B. (See Instruction No. 4B). RCW 48.31B.025(1) states:

“Every insurer authorized to do business in this state that is a member of an insurance holding company system shall register with the commissioner....”

RCW 48.31B.025(1)(c) states:

“Each registered insurer shall keep current the information required to be disclosed in its registration statement by reporting all material changes or additions within fifteen days after the end of the month in which it learns of each change or addition.”

RCW 48.31B.025(4) defines material changes as:

“No information need be disclosed on the registration statement filed under subsection (2) of this section if the information is not material for the purposes of this section. Unless the commissioner by rule or order provides otherwise, sales, purchases, exchanges, loans or extensions of credit, investments, or guarantees involving one-half of one percent or less of an insurer’s admitted assets as of the 31<sup>st</sup> day of the previous December are not material for purposes of this section.”

Transactions within a holding company system are subject to standards that specifically state that terms must be fair and reasonable, under RCW 48.31B.030(1)(a)(i). The three (3) annuities CIC acquired from MM&S and SSI were in default at the time of purchase and are considered to be unfair and unreasonable for the policyholders of CIC. (See Instruction No. 5). RCW 48.31B.030(1)(a) states:

“Transactions within a holding company system to which an insurer subject to registration is a party are subject to the following standards.”

RCW 48.31B.030(1)(a)(i) states:

“The terms must be fair and reasonable.”

### **Other Assets: Annuities**

The examination of the three (3) annuities CIC acquired from MM&S and SSI during October 1999 noted certain facts and sequence of events that led examiners to conclude the Company was attempting to avoid statutory accounting practices by the manipulation of the assets and accounts of CIC at the detriment of policyholders.

1. At the time of the purchase during October 1999, the annuities were known by SSI and MM&S to be past due and in default. Numerous past due notices had previously been sent to the annuitants.
2. The annuities were not eligible for purchase or acquisition. Under RCW 48.13.020(1), CIC is prohibited from purchasing or acquiring any security that is in default in any respect. RCW 48.13.020(1) states:

“No security or other investment shall be eligible for purchase or acquisition under this chapter unless it is interest bearing or interest accruing or dividend or income paying, is not then in default in any respect, and the insurer is entitled to receive for its exclusive account and benefit, the interest or income accruing thereon.”

3. CIC purchased the three (3) defaulted annuities at a cost of \$508,606. The transactions were posted through the Company's Inter-company Accounts.
4. The NAIC Accounting Practices and Procedure Manual defines “Arm's-length” transactions as:

“A transaction in which a willing buyer and a willing seller, each being reasonably aware of all relevant facts and neither under compulsion to buy or sell, would be willing to participate.”

CIC was not in a position whereby it could purchase or acquire the three (3) defaulted annuities without violating RCW 48.13.020(1). Nor, could a reasonable individual conclude that CIC would be willing to invest \$508,606 in securities that were in default and would not result in an economic gain for CIC.

5. The three (3) annuities were never registered or recorded in the name of CIC. As of the examination date, December 31, 1999 and subsequently into the year 2000, the three (3) annuities remained registered and recorded under the names of SSI and MM&S. RCW 48.12.010 states:

“...there shall be allowed only such assets as belong wholly and exclusively to the insurer, which are registered, recorded or held under the insurer's name...”

Since the three (3) annuities remained registered under the names of SSI and MM&S, they are not allowable assets of CIC and should have been reported as non-admitted assets, thus reducing the net surplus of CIC and providing no economic gain.

6. The June 30, 2000 Quarterly Statement of CIC reported the redemption of the three (3) annuities at a loss of \$506,098.
7. The net result of the transfer of the three (3) defaulted annuities from SSI and MM&S to CIC is:

- SSI and MM&S, as non-insurance companies reporting on a GAAP basis, should have reported the three annuities at the lower of cost or market value. The two companies should have written off the defaulted annuities in 1999 and realized a loss of \$508,606. The net worth of the Group on a consolidated basis would have decreased by the same \$508,606.
- Instead of writing off the annuities and taking the loss in 1999, SSI and MM&S transferred the annuities to CIC at full book value, receiving in exchange cash, thereby avoiding a decrease in the net worth of SSI and MM&S. CIC reported

the value of the annuities on its books at cost, with no decrease in its surplus. The net worth of the Group on a consolidated basis, as of December 31, 1999, did not decrease.

- During the first half of the year 2000, CIC writes off its investment in the three (3) annuities and takes a loss of \$506,098, even though the annuities remained recorded and registered under the names of SSI and MM&S. The net worth of the Group on a consolidated basis, as of June 30, 2000, decreased by \$506,098.
- Consequentially, SSI and MM&S are recipients of \$508,606 of CIC's cash and CIC reported a realized loss of \$506,098. The transfer of the annuities between affiliate companies cannot be considered an "Arm's-length" transaction. The transfer of the annuities to CIC is a manipulation of the assets and accounts of CIC to the detriment of policyholders, and the Company could be subject to action under RCW 48.05.140(8).

(See Instructions No. 5A, 5B, and 5C).

### **Mortgage Loans on Real Estate**

As of the examination date, there were eight (8) mortgage loans registered and recorded in the name of Metropolitan Mortgage & Securities Co., Inc., and two (2) were in the name of Western United Life Assurance Company. These ten (10) mortgage loans should have been reported as non-admitted assets, under RCW 48.12.010. (See Instruction No. 6). RCW 48.12.010 states:

"In any determination of the financial condition of any insurer there shall be allowed as assets only such assets as belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer's name..."

### **EDP SYSTEMS AND OPERATIONS**

The Management of CIC and WULA are sufficiently knowledgeable of EDP issues and the various department managers work with the IS Department to provide direction and oversight. Systems Development, Acquisition and Maintenance Controls were evaluated to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. The Company has detailed written documentation for its major operations and financially significant applications. There is proper supervision and review for each project to ensure satisfactory completion. The Company has an Internal Audit Department, but does not have an IS Specialist within the Department. Instead, MM&S contracts with external auditors to provide system reviews.

The Company's EDP services are provided by Metropolitan Mortgage & Securities Company, Inc. Operations, processing and documentation controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the controls exercised to maintain data security.

### **SUBSEQUENT EVENTS**

In a letter to the Board, Bruce Blohowiak resigned his position as Director of Consumers Insurance Company (CIC). On February 4, 2000, by Waiver of Notice and Consent to Corporate Action in Lieu of Special Meeting, the Board accepted Mr. Blohowiak's resignation.

On February 4, 2000, by Waiver of Notice and Consent to Corporate Action in Lieu of Special Meeting, the Board of Directors voted to remove the following Officers from their positions:

Susan Thomson, Assistant Secretary  
Jon McCreary, Acting Treasurer  
Bruce Blohowiak, Vice President

On February 4, 2000, by Waiver of Notice and Consent to Corporate Action in Lieu of Special Meeting, the Board voted to approve the appointment of the following Officer:

Joel Rosenberg, Treasurer

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

The prior examination report, dated December 31, 1993 included one (1) examination adjustment. CIC exceeded the statutory limitation imposed on insurance stocks under RCW 48.13.210(1). Approximately seventy-eight percent of admitted assets were in the form of common stock invested in Western United Life Assurance Company, a subsidiary of the Company. The \$12,712,859 adjusting entry decreased assets and decreased unassigned funds (surplus). The Company was instructed to comply with the limitation imposed by RCW 48.13.210(1), which states:

“An insurer other than a life insurer may invest a portion of its surplus funds in an aggregate amount not exceeding fifty percent of its surplus over its capital stock and other liabilities, or thirty-five percent of its capital funds, whichever is greater, in the stocks of other insurers organized and existing under the laws of states of the United States. Indirect or proportionate interests in insurance stocks held by an insurer through any intermediate subsidiary or subsidiaries shall be included in applying the limitations provided in subsections (1), (2), and (3) of this section.”

A review of the 1999 Annual Statement notes CIC properly non-admitted the excess value of WULA. The reported amount non-admitted equaled \$43,560,748. The Company has complied with the instructions from the prior examination.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of Consumers Insurance Company as of December 31, 1999:

- Statement of Assets, Liabilities, Surplus and Other Funds
- Underwriting and Investment Exhibit
- Analysis of Examination Changes in Financial Statements
- Comparative Statement of Assets, Liabilities, Surplus and Other Funds
- Comparative Underwriting and Investment Exhibit
- Four Year Reconciliation of Surplus and Other Funds

**CONSUMERS INSURANCE COMPANY**  
**Statement of Assets, Liabilities, Surplus and Other Funds**  
**As of December 31, 1999**

	<u>Balance Per Company</u>	<u>Adj. No.</u>	<u>Examination Adjustments</u>	<u>Ref.</u>	<u>Balance Per Examination</u>
<b><u>ASSETS</u></b>					
Bonds	\$ 586,957			(2A)	\$ 586,957
Stocks:					
Preferred	3,500,000			(2B)	3,500,000
Common	5,502,919			(2C)	5,502,919
Mortgage loans on real estate:					
First liens	1,211,452	(1)	(654,248)		557,204
Cash	473,258			(2D)	473,258
Other invested assets	508,606	(2)	(508,606)		-
<b>Subtotals, cash and invested assets</b>	<b>11,783,192</b>		<b>(1,162,854)</b>		<b>10,620,338</b>
Interest, dividends and real estate income due and accrued	55,883				55,883
Receivable from parent, subsidiaries and affiliates	179,837				179,837
<b>Total assets</b>	<b><u>\$ 12,018,912</u></b>		<b><u>\$ (1,162,854)</u></b>		<b><u>\$ 10,856,058</u></b>
<b><u>LIABILITIES</u></b>					
Losses	\$ 11,076			(5)	\$ 11,076
Loss adjustment expenses	2,000			(5)	2,000
<b>Total liabilities</b>	<b>13,076</b>				<b>13,076</b>
<b><u>SURPLUS AND OTHER FUNDS</u></b>					
Common capital stock	1,000,000				1,000,000
Gross paid in and contributed surplus	999,151				999,151
Unassigned funds (surplus)	10,006,685	(1, 2)	(1,162,854)		8,843,831
<b>Surplus as regards policyholders</b>	<b>12,005,836</b>		<b>(1,162,854)</b>		<b>10,842,982</b>
<b>Total liabilities, surplus and other funds</b>	<b><u>\$ 12,018,912</u></b>		<b><u>\$ (1,162,854)</u></b>		<b><u>\$ 10,856,058</u></b>

**CONSUMERS INSURANCE COMPANY**  
**Underwriting and Investment Exhibit**  
**As of December 31, 1999**

**STATEMENT OF INCOME**

	<u>Balance Per Company</u>	<u>Adj. No.</u>	<u>Examination Adjustments</u>	<u>Ref.</u>	<u>Balance Per Examination</u>
<b><u>UNDERWRITING INCOME</u></b>					
Premiums earned	\$ 135,000				\$ 135,000
DEDUCTIONS					
Losses incurred	20,000				20,000
Loss expenses incurred	33,886				33,886
Other underwriting expenses incurred	11,335				11,335
Total underwriting deductions	65,221		-		65,221
Net underwriting gain or (loss)	69,779		-		69,779
<b><u>INVESTMENT INCOME</u></b>					
Net investment income earned	529,391			(6)	529,391
Net realized capital gains or (losses)	36,332				36,332
Net investment gain or (Loss)	565,723		-		565,723
<b><u>OTHER INCOME</u></b>					
Net gain or (loss) from agents' or premium balances charged off	-				-
Finance and service charges not included in premiums	-				-
Aggregate write-ins for miscellaneous income	-				-
Total other income	-		-		-
Net income before dividends to policyholders and before federal and foreign income taxes	635,502		-		635,502
Dividends to policyholders	-				-
Net income, after dividends to policyholders but before federal and foreign income taxes	635,502		-		635,502
Federal and foreign income taxes incurred	-				-
<b>Net income</b>	<b><u>\$ 635,502</u></b>		<b><u>\$ -</u></b>		<b><u>\$ 635,502</u></b>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>					
Surplus as regards policyholders, December 31, prior year	\$ 10,734,832				\$ 10,734,832
<b><u>GAINS AND (LOSSES) IN SURPLUS</u></b>					
Net income	635,502		\$ -		635,502
Net unrealized capital gains or (losses)	5,149,290				5,149,290
Change in non-admitted assets	(4,513,788)		(1,162,854)		(5,676,642)
Change in surplus as regards policyholders for the year	1,271,004		(1,162,854)		108,150
<b>Surplus as regards policyholders, December 31, current year</b>	<b><u>\$ 12,005,836</u></b>		<b><u>\$ (1,162,854)</u></b>		<b><u>\$ 10,842,982</u></b>

**CONSUMERS INSURANCE COMPANY**  
**Analysis of Examination Changes in Financial Statements**  
**As of December 31, 1999**

	<u>Adj.</u> <u>No.</u>	<u>INCREASE/</u> <u>(DECREASE)</u>	
Surplus as regards policyholders, per company			\$ 12,005,836
<b><u>ASSETS</u></b>			
Mortgage loans on real estate:	(1)	\$ (654,248)	
Mortgage loans were recorded and registered under the name of Metropolitan Mortgage & Securities, Inc. or Western United Life Assurance Co. RCW 48.12.010 requires all assets to belong wholly and exclusively to the insurer.			
Other invested assets	(2)	(508,606)	
The annuity investments were not registered and recorded under the name of the Company, as required by RCW 48.12.010.			
<b><u>LIABILITIES</u></b>			
Net Increase/(Decrease) to Surplus			<u>(1,162,854)</u>
Surplus as regards policyholders, per examination			<u><u>\$ 10,842,982</u></u>

**CONSUMERS INSURANCE COMPANY**  
**Comparative Statement of Assets, Liabilities, Surplus and Other Funds**  
**As of December 31,**

	<u><b>1999*</b></u>	<u><b>1998</b></u>
<u><b>ASSETS</b></u>		
Bonds	\$ 586,957	\$ 887,437
Stocks:		
Preferred	3,500,000	-
Common	5,502,919	4,867,417
Mortgage loans on real estate:		
First liens	557,204	444,635
Cash	473,258	500,472
Other invested assets	-	3,500,000
<b>Subtotals, cash and invested assets</b>	<u><b>10,620,338</b></u>	<u><b>10,199,961</b></u>
Interest, dividends and real estate income due and accrued	55,883	17,979
Receivable from parent, subsidiaries and affiliates	179,837	529,968
<b>Total assets</b>	<u><b>\$ 10,856,058</b></u>	<u><b>\$ 10,747,908</b></u>
<u><b>LIABILITIES</b></u>		
Losses	\$ 11,076	\$ 11,076
Loss adjustment expenses	2,000	2,000
<b>Total liabilities</b>	<u><b>13,076</b></u>	<u><b>13,076</b></u>
<u><b>SURPLUS AND OTHER FUNDS</b></u>		
Common capital stock	1,000,000	1,000,000
Gross paid in and contributed surplus	999,151	999,151
Unassigned funds (surplus)	8,843,831	8,735,681
<b>Surplus as regards policyholders</b>	<u><b>10,842,982</b></u>	<u><b>10,734,832</b></u>
<b>Total liabilities, surplus and other funds</b>	<u><b>\$ 10,856,058</b></u>	<u><b>\$ 10,747,908</b></u>

\*Balances adjusted as per examination.

**CONSUMERS INSURANCE COMPANY**  
**Comparative Underwriting and Investment Exhibit**  
**For the Years Ended December 31,**

**STATEMENT OF INCOME**

	<u><b>1999*</b></u>	<u><b>1998</b></u>
<b><u>UNDERWRITING INCOME</u></b>		
Premiums earned	\$ 135,000	\$ 180,000
DEDUCTIONS		
Losses incurred	20,000	11,076
Loss expenses incurred	33,886	22,909
Other underwriting expenses incurred	11,335	12,540
Total underwriting deductions	<u>65,221</u>	<u>46,525</u>
Net underwriting gain or (loss)	<u>69,779</u>	<u>133,475</u>
<b><u>INVESTMENT INCOME</u></b>		
Net investment income earned	529,391	524,031
Net realized capital gains or (losses)	36,332	10,436
Net investment gain or (Loss)	<u>565,723</u>	<u>534,467</u>
<b><u>OTHER INCOME</u></b>		
Net gain or (loss) from agents' or premium balances charged off	-	-
Finance and service charges not included in premiums	-	-
Aggregate write-ins for miscellaneous income	-	-
Total other income	<u>-</u>	<u>-</u>
Net income before dividends to policyholders and before federal and foreign income taxes	<u>635,502</u>	<u>667,942</u>
Dividends to policyholders	-	-
Net income, after dividends to policyholders but before federal and foreign income taxes	<u>635,502</u>	<u>667,942</u>
Federal and foreign income taxes incurred	-	-
<b>Net income</b>	<b><u><u>\$ 635,502</u></u></b>	<b><u><u>\$ 667,942</u></u></b>

\*Balances adjusted as per examination.

**CONSUMERS INSURANCE COMPANY**  
**Four Year Reconciliation of Surplus and Other Funds**  
**As of December 31,**

	<u>1999*</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>						
Surplus as regards policyholders, December 31, prior year	\$ 10,734,832	\$ 9,398,946	\$ 18,190,328	\$ 16,492,250	\$ 18,791,195	\$ 21,207,855
<b><u>GAINS AND (LOSSES) IN SURPLUS</u></b>						
Net income	635,502	667,942	690,047	659,494	2,131,641	8,550,795
Net unrealized capital gains or (losses)	5,149,290	1,815,701	2,588,233	3,077,214	2,723,616	(6,223,197)
Change in non-admitted assets	(5,676,642)	(1,147,757)	(10,254,662)	(2,038,630)	(4,454,202)	2,320,742
Dividends to stockholders (cash)	-	-	(1,815,000)	-	(2,700,000)	(7,065,000)
Change in surplus as regards policyholders for the year	108,150	1,335,886	(8,791,382)	1,698,078	(2,298,945)	(2,416,660)
Surplus as regards policyholders, December 31, current year	<u>\$ 10,842,982</u>	<u>\$ 10,734,832</u>	<u>\$ 9,398,946</u>	<u>\$ 18,190,328</u>	<u>\$ 16,492,250</u>	<u>\$ 18,791,195</u>

\*Balances adjusted as per examination.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of Presentation

The financial statements included herein have been prepared in accordance with accounting practices prescribed or permitted by the Washington Office of Insurance Commissioner. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules.

### 2. Investments

Investments are valued based on the NAIC's Valuation of Securities Manual and Chapter 48.12 of the Revised Code of Washington.

#### A. Bonds

Bonds are generally reported at amortized cost using the scientific method, which closely approximates the effective interest method. The audited statement values, unrealized gains and losses, estimated market values and acquisition cost of bonds held for investment as of December 31, 1999 were as follows:

	Statement <u>Value</u>	Unrealized Gains/ <u>(Losses)</u>	Market <u>Value</u>	Actual <u>Cost</u>
U.S. Government	\$198,721	\$145	\$198,866	\$198,386
Special Revenue	<u>388,236</u>	<u>0</u>	<u>388,236</u>	<u>331,352</u>
Total	<u>\$586,957</u>	<u>\$145</u>	<u>\$587,102</u>	<u>\$529,738</u>

The maturity distribution of all bonds owned as of December 31, 1999 was as follows:

	Statement <u>Value</u>	Percent of <u>Portfolio</u>
Due in one year or less	\$ 43,280	7.3%
Due over one year through five years	272,250	46.4%
Due over five years through ten years	181,834	31.0%
Due over ten years through twenty years	89,593	15.3%
Over twenty years	<u>0</u>	<u>0.0%</u>
Total	<u>\$586,957</u>	<u>100.0%</u>

The Securities Valuation Office classification distribution as of December 31, 1997 was as follows:

	Statement <u>Value</u>	Percent of <u>Portfolio</u>
Class 1	<u>\$586,957</u>	<u>100.0%</u>
Total	<u>\$586,957</u>	<u>100.0%</u>

## **B. Preferred Stocks**

Preferred stocks are valued at market. The Book Value, Unrealized Gains and Losses, Estimated Market Values and Actual Cost of common stocks held as of December 31, 1999 were as follows:

	Book <u>Value</u>	Unrealized Gains/ <u>(Losses)</u>	Market <u>Value</u>	Actual <u>Cost</u>
Preferred Stocks	\$3,500,000	\$0	\$3,500,000	\$3,500,000

## **C. Common Stocks**

The Company owns 75.5% of the common stock of Western United Life Assurance Company, a life insurance company domiciled in Washington State. The stock is valued on the equity basis as described in the "Valuation Procedures and Instructions for Bonds and Stocks" of the Purposes and Procedures Manual of the Securities Valuation Office of the NAIC. The Book Value, Unrealized Gains and Losses, Estimated Market Values and Actual Cost of common stocks held as of December 31, 1999 were as follows:

	Book <u>Value</u>	Unrealized Gains/ <u>(Losses)</u>	Market <u>Value</u>	Actual <u>Cost</u>
Common Stocks	\$5,502,919	\$0	\$5,502,919	\$2,340,965

## **D. Cash And Short-Term Investments**

Short-term investments include securities acquired within one (1) year of maturity and are reported at amortized cost, which approximates market value. The statement value of Cash and Short-Term Investments, as of December 31, 1999 were as follows:

Cash	\$473,258
Short-Term Investments	<u>0</u>
Total	<u>\$473,258</u>

### **3. Information Concerning Parent, Subsidiaries and Affiliates**

All outstanding shares of the Company are owned Consumers Group Holding Co., Inc., an insurance holding company domiciled in the state of Washington. Metropolitan Mortgage & Securities Co., Inc., is the parent company and owns 96% of CGHC.

### **4. Non-Admitted Assets**

Certain assets designated as "non-admitted" have been excluded from the balance sheet. The non-admitted assets are reflected as direct adjustments from net worth. The total non-admitted assets as of December 31, 1999 consisted of the following assets:

Common Stocks	\$43,560,748
Mortgage Loans on Real Estate	654,248
Other Assets	<u>508,606</u>
Total	<u>\$44,723,602</u>

### **5. Loss Reserves**

Mortgage guaranty policies had the following reserves for the year ending December 31, 1999:

Case Reserves	\$11,076
Unpaid Loss Adjustment Expenses	<u>2,000</u>
Total Loss Reserve	<u>\$13,076</u>

### **6. Net Investment Income**

The following is a summary of net investment income earned for the year ending December 31, 1999:

Bonds	\$ 53,030
Mortgage loans on real estate	109,528
Surplus certificates	<u>393,562</u>
Gross investment income	556,120
Investment expenses	<u>(26,729)</u>
Net Investment Income	<u>\$529,391</u>

## **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Consumers Insurance Company during the course of this examination.

In addition, acknowledgment is made of the participation in the work and preparation to this report by John R. Jacobson, AFE, Examiner-in-Charge; Michael V. Jordan, CPA, CFE, MHP; all from the Washington Office of Insurance Commissioner.

**AFFIDAVIT**

<b>STATE OF WASHINGTON</b>	}	
	}	<b>ss</b>
<b>COUNTY OF THURSTON</b>	}	

John R. Jacobson, AFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Consumers Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

John R. Jacobson, AFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 29<sup>th</sup> day of June, 2001.

Notary Public in and for the  
State of Washington.